



**STRATEGIC
PLAN**

FISCAL YEARS 2009-2012

Submitted this 3rd day of July 2008

A handwritten signature in black ink, appearing to read "J. Anderson", followed by a long horizontal line extending to the right.

Jeffrey R. Anderson, Director

I. Mission and Vision

The mission of the Idaho Lottery is to responsibly provide entertaining games with a high degree of integrity to maximize the dividend for Idaho public schools and buildings.

The vision for the Idaho Lottery is to become the highest performing jurisdiction in North America.

II. Goals

- 1. Protect the security and integrity of our games**
- 2. Responsibly increase net revenues**
- 3. Responsibly manage costs**
- 4. Guard the honesty of charitable gaming**

III. Objectives

1 – Protect the security and integrity of Idaho Lottery games by continuing to meet or exceed the Multi-State Lottery Association (MUSL), National Association for State and Provincial Lotteries (NASPL), and internal Idaho Lottery security standards.

We continue to conduct thorough background checks of prospective Lottery and vendor employees (as well as having the option for similar retailer background checks) for criminal, financial, and conflict of interest issues that could affect the integrity of our games. S1282, passed during the 2008 Legislative session and signed into law by Governor Otter, improved the Lottery's ability to conduct these background checks.

The Idaho Lottery Security Division will continue to investigate and prosecute theft and fraud relating to Lottery games as well as assist retailers with loss prevention.

2 – Responsibly increase net revenues by (1) diligently working to improve the net game revenue from our portfolio of products, (2) enriching retailer relations, (3) extending distribution channels, (4) gaining a better understanding of the marketplace through research, and (5) introducing the next generation of Player Activated Terminals (PAT).

2.1 – Lottery game revenue comes from three authorized play styles:

- Lotto-style games – *Powerball, Wild Card, Idaho Pick 3, Hot Lotto, and Idaho \$1,000,000 Raffle*
- Instant ticket games – *Scratch Games®*
- Break-open instant ticket games – *Pull-Tabs*

Net game revenue varies by game, subject to player prize expense and the cost of goods sold. *Scratch Games®* and *Pull-Tabs* have higher prize payouts and overall costs than lotto-style games. In order to increase net game revenues, we will increase total sales, the ratio of lotto-style games to instant ticket and break-open games, and achieve increased guaranteed profits from *Pull-Tab* games.

Lotto-style games – increase overall game sales and as a percentage of total sales by recruiting additional retail outlets, promoting *The Works* (lotto-style product bundling), promoting sales of the *Powerball Powerplay* and *Hot Lotto Sizzler* option, launching the second annual *Idaho \$1,000,000 Raffle*, and augmenting the product line-up with a new lotto-style game. (*Cost of goods sold includes prize expense and a 1.98% fee of on-line sales paid to gaming system provider, Intralot.*)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Powerball	\$39,659,687	\$38,292,403	\$44,709,233	\$30,040,342
Wild Card	4,194,055	6,371,182	3,255,698	3,194,824
Idaho Pick 3	1,868,526	1,421,235	1,212,833	1,190,309
Hot Lotto	2,766,541	0	0	0
Raffle	2,500,000	0	0	0
Total Lotto Sales	<u>\$50,988,809</u>	<u>\$46,084,820</u>	<u>\$49,177,764</u>	<u>\$34,425,475</u>
Change from prior year	\$4,903,989	(\$3,092,944)	\$14,752,289	(\$5,105,477)
Percentage Sales Change	10.6%	-6.3%	42.9%	-12.9%
Percentage of Product Sales	37.2%	35.3%	37.5%	30.3%

Instant ticket games – increase *Scratch Games®* sales by recruiting additional retail outlets, continuing to introduce unique and entertaining play formats and styles, promoting higher price point games, improving in-store product displays, and increasing product turnover. (*Cost of goods sold includes prize expense, shipping to retailers, a printing fee of 1.55% of instant ticket sales to Scientific Games, and a 1.98% fee of instant ticket sales to gaming system provider, Intralot*)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
One-dollar games	\$10,695,038	\$11,488,607	\$13,376,481	\$15,386,911
Two-dollar games	8,167,900	8,825,982	9,730,284	10,907,352
Three-dollar games	29,599,329	29,893,590	31,190,340	31,112,193
Four-dollar games	0	0	0	799,360
Five-dollar games	13,419,210	14,239,072	10,777,774	6,499,258
Seven-dollar games	6,182,442	7,508,788	6,281,898	3,292,725
Ten-dollar games	9,946,570	5,232,300	3,993,800	4,008,460
Fifteen-dollar games	6,376,095	6,014,520	5,636,340	5,740,395
Total Scratch Sales	<u>\$84,386,584</u>	<u>\$83,202,859</u>	<u>\$80,986,917</u>	<u>\$77,746,654</u>
Change from prior year	\$1,183,725	\$2,215,942	\$3,240,263	\$9,230,483
Percentage Sales Change	1.4%	2.7%	4.2%	13.5%
Percentage of Product Sales	61.6%	63.7%	61.8%	68.5%

Break-open instant ticket games – increase ***Pull-Tab*** sales by recruiting additional commercial and charitable retailers through responsibly managing our new agreement with International Gamco for full service printing, warehousing, sales, and distribution of the entire ***Pull-Tab*** product line. The agreement provides for increased and guaranteed profits to the Idaho Lottery. *(Cost of goods sold includes the variable percentage of sales paid to International Gamco and a 1.98% fee of break-open instant ticket sales to gaming system provider, Intralot.)*

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Pull-tabs	\$1,711,849	\$1,243,740	\$966,360	\$1,325,250
Total Pull-tab Sales	<u>\$1,711,849</u>	<u>\$1,243,740</u>	<u>\$966,360</u>	<u>\$1,325,250</u>
Change from prior year	\$468,109	\$277,380	(\$358,890)	\$152,760
Percentage Sales Change	37.6%	28.7%	-27.1%	13.0%
Percentage of Product Sales	1.2%	1.0%	0.7%	1.2%

TOTAL PRODUCT SALES SUMMARY

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Lotto Sales	\$50,988,809	\$46,084,820	\$49,177,764	\$34,425,475
Scratch Sales	84,386,584	83,202,859	80,986,917	77,746,654
Pull-tab Sales	<u>1,711,829</u>	<u>1,243,740</u>	<u>966,360</u>	<u>1,325,250</u>
Total Sales	<u>\$137,087,222</u>	<u>\$130,531,419</u>	<u>\$131,131,041</u>	<u>\$113,497,379</u>

2.2 – Enrich retailer relations by continuing to conduct retailer advisory panels throughout the state to gain feedback on our performance, creating a more

productive retailer bonus program, and developing a more effective training plan for retail managers and clerks.

2.3 – Extend distribution channels by adding 100 new retail outlets through opening sales opportunities in communities where sales are not currently available, entering age-controlled trade styles with break-open ticket vending machines, and responsibly augmenting the number of vending machines available in the marketplace.

2.4 – Conduct responsible market research for the first time since 2001 to gain a more meaningful understanding of Lottery players' interest in our brand and product offerings in order to create entertaining games.

2.5 – Deploy the new, next generation of Player Activated Terminals (PAT) to replace the aging and obsolete vending machines currently on the market and to open up opportunities in new trade styles. The new machines will offer both instant ticket and lotto-style games.

3 – Responsibly manage costs by controlling and lowering the expense of operating the Lottery through negotiating favorable vendor contracts for services, replacing vehicles on the normal schedule with a more fuel-efficient fleet, creating operational efficiencies, and exercising continuous process improvement.

4 – Guard the honesty of charitable gaming by continuing to rigorously enforce licensing and oversight procedures of charitable bingo and raffle operators. S1322, passed during the 2008 Legislative session and signed into law by Governor Otter, significantly improved our ability to provide oversight of charitable gaming.

IV. Performance Measures

The most effective measures of an enterprise operation such as the Idaho Lottery are its performance to plan as reported in the statement of revenues, expenditures, net income, and internal yardstick criteria.

Internal yardsticks include comparing our performance to the industry as a whole and to a peer group of like jurisdictions. The criteria includes, but may not be limited to, our performance compared to the mean and median percentage change in: retailers per capita, dividend change, dividend to sales, advertising to sales, sales per capita, administration costs to sales, overall sales, lotto sales, instant ticket sales, prize expense to sales, and product mix. The peer group is comprised of Kansas, Maine, Minnesota, Montana, Nebraska, New Mexico, South Dakota, Tennessee, and Vermont.

V. Bench Marks

Peer Benchmark Measures:

	FY08		FY07		FY06		FY05	
	PEER GROUP**	IDAHO	PEER GROUP*	IDAHO	PEER GROUP*	IDAHO	PEER GROUP*	IDAHO
SALES PER CAPITA	-	\$93.52	\$101.44	\$88.92	\$99.31	\$89.33	\$88.28	\$81.07
ADMINISTRATION COSTS AS A PERCENTAGE OF SALES	-	6.3%	8.4%	7.6%	8.9%	8.0%	9.7%	9.1%
DIVIDEND AS A PERCENTAGE OF SALES	-	25.4%	24.4%	26.0%	24.1%	25.1%	23.4%	22.9%
DIVIDEND INCREASE PERCENTAGE	-	2.2%	0.4%	3.0%	7.7%	26.9%	3.1%	4.0%

* PEER GROUP INCLUDES - KANSAS, MAINE, MINNESOTA, MONTANA, NEBRASKA, NEW MEXICO, SOUTH DAKOTA, TENNESSEE AND VERMONT

**PEER GROUP FIGURES UNAVAILABLE AT THIS TIME

Idaho Lottery Benchmarks

	<u>FY-2009</u>	<u>FY-2010</u>	<u>FY-2011</u>	<u>FY-2012</u>
Lotto Sales:				
Powerball	\$42,000,000	\$43,100,000	\$44,200,000	\$45,300,000
Wild Card	3,400,000	3,500,000	3,600,000	3,700,000
Idaho Pick 3	2,000,000	2,100,000	2,200,000	2,300,000
Hot Lotto	3,400,000	3,500,000	3,600,000	3,700,000
Raffle	2,500,000	2,500,000	2,500,000	2,500,000
New Lotto Game		1,200,000	1,200,000	1,200,000
Total Lotto Sales	53,300,000	55,900,000	57,300,000	58,700,000
Scratch ticket sales	86,000,000	88,200,000	90,400,000	93,000,000
Pull-tab ticket sales	2,100,000	2,200,000	2,300,000	2,400,000
Total Product Sales	<u>141,400,000</u>	<u>146,300,000</u>	<u>150,000,000</u>	<u>154,100,000</u>
Total Expenditures	106,400,000	109,800,000	113,000,000	116,600,000
Net Income	\$35,000,000	\$36,500,000	\$37,000,000	\$37,500,000

VI. External Factors

The primary external factor that may affect performance to plan is the jackpot phenomenon. Lotto-style game sales are directly related to the size of jackpots. As noted below, when jackpots get bigger, sales grow. Experience indicates driving sales in low jackpot cycles is challenging. However, as mentioned above, we intend to address the issue through product bundling, augmentation of the lotto-style game lineup, and effective marketing.

POWERBALL JACKPOTS			
Year	Average Announced Jackpot Per Draw	Average Sales Per Draw	Annual Sales
2008	\$70,988,462	\$381,343	\$39,659,687
2007	\$69,694,286	\$364,690	\$38,292,403
2006	\$82,342,192	\$429,896	\$44,709,233
2005	\$49,202,885	\$288,849	\$30,040,342
2004	\$62,099,048	\$339,498	\$35,594,769
2003	\$49,337,500	\$302,959	\$31,577,648

Additional external factors that may impact our ability to deliver performance to plan include, but are not limited to, rapidly increasing fuel and energy prices and their impact on player disposable income, deterioration of general economic conditions, our ability to be nimble in responding to rapidly changing retail market conditions, terrorism, war, and Acts of God.